



THE HOUSING INDUSTRY IN GHANA: PROSPECTS AND CHALLENGES

MAIN ISSUES

This brief provides an insight into Ghana's housing industry. It explores housing conditions, shortfalls in housing supply in relation to population growth and distribution, the role of the real estate providers and mortgage financing in Ghana.

Prospects, challenges and policy issues that could reposition the housing industry as a vibrant sector are outlined.

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ISSUES IN BRIEF

Housing is one of the most important basic needs in every society. Improved housing markets also provide positive externalities, as well as direct consumption benefits. For instance, increased housing activities also stimulate economic activities through ancillary industries such as building materials and also benefits professionals such as architects and civil engineers.

Generally, housing constitutes a major component of household wealth, especially for low-income households, and no doubt, housing wealth is increasingly gaining importance in the Ghanaian economy. For many households, it is the most important form of savings as homeownership is considered as a hedge against inflation in the medium term. In other instances, it is utilized as collateral for borrowing by homeowners, thereby generating funds for other investments and wealth creation. Thus, the housing industry has the capacity to both cultivate and protect wealth.

Since Ghana's independence, provision of housing has remained central to the development agenda. Various policies, programmes and institutions have sought to address issues such as land tenure, land title regulation, and provision of affordable housing units to the working population. However, a number of these housing strategies were negatively affected by lack of funds, poor macroeconomic environment and lack of private sector participation. Thus, compared with other advanced countries, Ghana's housing industry remains rudimentary.

In recent times however, and within the context of the improved macroeconomic environment characterized by low inflation rates, low interest rates and relatively stable exchange rates, activities in Ghana's housing sector is gaining momentum. Although housing demand and supply gaps that are fueled by a rapidly growing middle-class as well as increased urbanization remain, the rising mortgage debt outstanding to GDP ratio provides evidence that the sector has recorded moderate growth over the past three years in particular, albeit from a low base.

The gradual improvement in housing supply notwithstanding, the sector faces a number of challenges such as land acquisition, prolonged land title and registration processes, high costs of rental units and house prices that require policy intervention. Empirical evidence has demonstrated that housing policies based on the "Enabling Markets Approach (EMA)" often yields better results. Basically, the EMA relies on the private sector as the main supplier of houses and issuer of long-term financing for households whereas Government's role is limited to that of a regulator and facilitator.

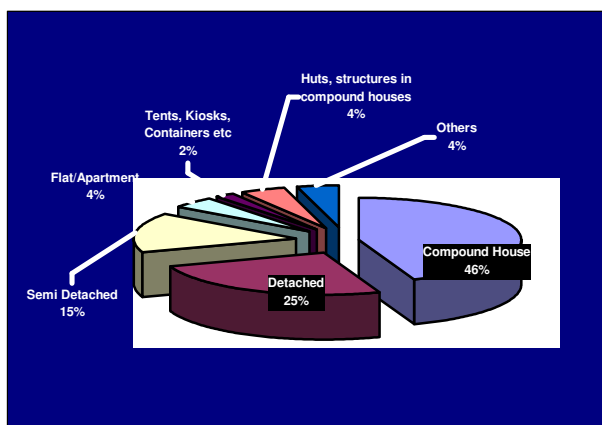
This underscores the importance of government emphasis on creating an enabling environment for increased private sector participation in Ghana's housing industry.

Housing Conditions

In the recent population and housing census, the Ghana Statistical Service (GSS) classified 'occupied dwellings' into 10 categories as follows: rooms in a compound, the separate house (detached house), semi-detached house, several huts/buildings, improvised house (kiosk/container), living quarters attached to a shop, camps or tent, hotel or hostel, flat or apartment, and other.

An analysis of housing characteristics (Chart 1) reveals that in both urban and rural areas, 45% of Ghanaian households live in *compound houses*. The second most common dwelling type in all regions (except the Volta Region (44.7%) where it was the predominant housing type) was '*Separate or detached house*' (24.1%). '*Semi-detached house*' (15.2%) ranked third among types of dwelling units in Ghana. Next was '*Flat or apartment*' which ranked fourth in the country (4.2%) and in urban localities (7.2%).

Chart 1: Types of Dwelling Units in Ghana



The Census further revealed that Households or individuals occupying '*Improved house (kiosk/container) and living quarters attached to a shop*' were mainly located in urban areas such as Accra and Kumasi. This phenomenon is attributable to rural-urban migration. In Greater Accra, for example, these improvised houses (kiosks and containers) are often used for both commercial and residential purposes.

Housing Supply and Demand

Population distribution largely reflects housing distribution in Ghana. The 2000 Population and Housing Census placed Ghana's population at about 18,912,079. The census figures also showed that the national population remained largely rural representing about 56.3% of the total population.

As at 2000, the census recorded an average household size of 5.1 persons with about 1.7 households per house, and total housing units of 2,181,875 nationwide.

This number of housing units compared with number of households indicated overcrowding conditions in most houses. On the average, about 8.7 persons live in each house in Ghana. Ashanti Region recorded the highest percentage of housing stock in the country (15.1%) which corresponds to its high population. Although Greater Accra recorded a lower share of housing stock (13.2%) compared with Kumasi, its urban share of housing stock was about 80%. Against this backdrop and given the intercensal population growth rate of 2.7% per year, it is projected that Ghana's population could swell with an additional 5,773,522 persons between 2000 and 2010. Assuming an average household size of 5.1 persons and that a separate unit of housing is required for each 1.7 households, then, *ceteris paribus*, an additional 665,920 houses would be required to meet the population's demand for the same period. Therefore, the required increment in housing needs for each respective year would be as estimated in Table 1.

In seeking to boost housing supply, the Government of Ghana is pursuing various programs such as the affordable housing program initiated in 2005, to build over 100,000 thousand units of affordable housing through Private, Public Partnerships (PPP) across the country. Government's efforts are also complemented by individual households and real estate developers that are providing residential housing to meet demand. Clearly, the gradual improvement in the economy has created investment opportunities in the housing industry. Thus, private real estate developers have in recent times, been increasing the supply of housing. For example, private real estate developers have over the past eight years, constructed over 10,954 new homes in Ghana.

Cumulatively, Tema Metropolitan Assembly (TMA) granted a total of 3,302 building permits between 2000 and 2006, representing an average annual growth rate of 6% over the entire period. Between 2005 and 2006, the Accra Metropolitan Assembly (AMA) also granted 404 building permits compared with 1,476 from the Tema Metropolitan Assembly. These trends portray a growing housing industry (at least in the Greater Accra environs) even though supply still lags behind demand.

Housing Costs

It is evident that the housing deficit has increased on account of the steady population increase. Although Government has been involved in the provision of affordable housing units over the years, the enormity of costs and the scale of needs have outstripped its capacity to meet the ever increasing housing needs of the population.

Table 1: Estimated Housing Stock and Deficit

Year	Estimated Population	Estimated Number of Households	Estimated Housing Requirement	Yearly Incremental Requirement
2001	19,422,705	3,808,374	2,240,220	58,896
2002	19,947,118	3,911,200	2,300,706	60,486
2003	20,485,690	4,016,802	2,362,825	62,119
2004	21,038,804	4,125,256	2,426,621	63,796
2005	21,606,852	4,236,638	2,492,140	65,519
2006	22,190,237	4,351,027	2,559,428	67,288
2007	22,789,373	4,468,505	2,628,532	69,105
2008	23,404,686	4,589,154	2,699,502	70,970
2009	24,036,613	4,713,061	2,772,389	72,887
2010	24,685,601	4,840,314	2,847,244	74,855

Source: 2000 Population Census and Authors' Calculations

Chart 2: Major Causes of House Price Increases

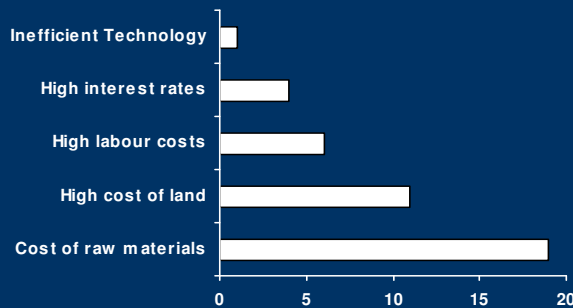
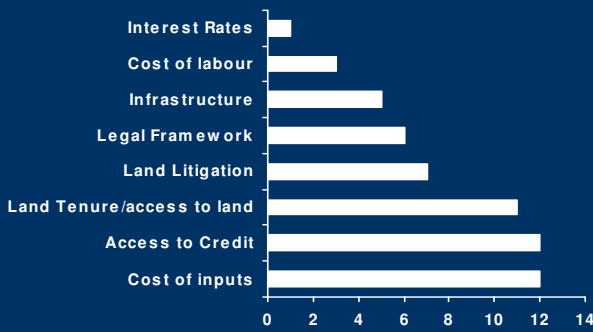
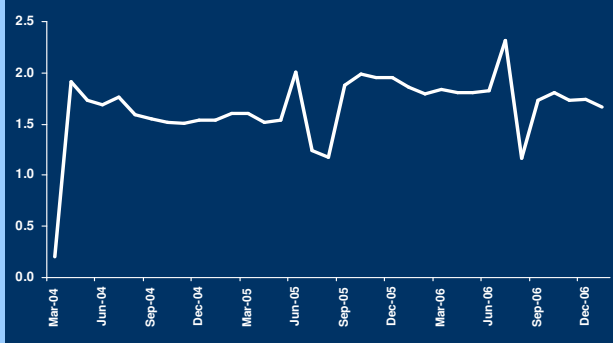


Chart 3: Factors Influencing House Prices



Source: Field Survey, March 2007

Chart 4: Mortgages/Total DMBs Credit (%)



As a result, housing supply in recent times is being driven largely by households rather than real estate developers or government. This has implications for appropriate finance and technical assistance which leads to delays in construction. In the process, capital which could have been channeled to other productive use is locked up in uncompleted houses.

In trying to gauge the cost of housing in Ghana, a survey was conducted on 22 real estate developers under the umbrella of Ghana Real Estate Developers Association (GREDA). The survey indicated that most houses built by estate developers are priced in foreign currency (US dollar) and cost of each house is differentiated by the housing type. For instance, most semi-detached house prices range between \$30,000 and \$90,000, detached self-contained houses are priced between \$50,000 and \$110,000.

Moreover, trends in house prices suggest that private estate developer's target the top-end of the market which often excludes the lower income population. As indicated in the distribution of clientele base, cumulatively, majority of homes built by real estate developers are owned by resident non-Ghanaians, non-resident Ghanaians and non-resident non-Ghanaians. This probably gives an indication that a greater share of total demand for housing emanates from clients whose earning capacity might be above average domestic incomes.

On the causes of persistent increases in house prices, 86 percent (19 out of the 22) of the respondents indicated that high costs of building raw materials was the most important driving force behind the rising prices of housing properties in the country. As shown in Chart 2, cost of land was also selected as the second largest reason behind the appreciable increases in house prices in Ghana, followed by labour cost, interest rate, and inefficient technology respectively.

Granted, not much can be achieved by policies aimed at improving access to housing from the demand side. Nevertheless, real estate developers cited cost of input and access to credit as the major factors that influence pricing of houses in Ghana. The complexities associated with Ghana's land tenure system also influence pricing of houses. The immediate results of such a problem are lack of transparency and the ease of transfer, which perpetuates multiple sales of property. Thus, insecure land titles complicate the development of an active and formalized housing industry in Ghana.

An interesting yet not surprising observation was that about 95 percent of respondent developers did not identify the level of domestic interest rates as a major problem although 36.4 percent of investors in the industry indicated having access to domestic bank loans.

Table 2: Price Structure of Housing Units in Ghana

Semi-detached		
Price Range	Frequency	Percent
Below \$30,000	1	4.5
\$30,000-\$50,000	8	36.4
\$51,000-\$70,000	4	18.2
\$71,000-\$90,000	1	4.5
Total	22	100

Detached		
Price Range	Frequency	Percent
\$40,000-\$70,000	6	27.3
\$71,000-\$90,000	3	13.6
\$91,000-\$110,000	1	4.5
Above \$110,000	6	27.3
Total	22	100

Flats		
Price Range	Frequency	Percent
Below \$31,000	1	4.5
\$31,000-\$40,000	2	9.1
Above \$50,000	1	4.5
\$100,000	1	4.5
Total	22	100

Source: Field survey, March 2007

Table 3: Distribution of Clientele Base

	Frequency (Yes)	Percent
Resident Ghanaians	19	86.4
Resident non-Ghanaians	10	45.5
Non-resident Ghanaians	15	68.2
Non-resident Non-Ghanaian	5	22.7
Others (Institutions)	2	9.1

Note: Respective frequencies were drawn from a sample of 22 real estate developers in four regions of Ghana.

Source: Field survey, March 2007

Table 4: Sources of Finance for Estate Developers

	Frequency (Yes)	Percent
Bank Loan (Domestic)	8	36.4
Bank Loan (Foreign)	2	9.1
Government Guarantee	1	4.5
Self Financing	16	72.7
Mortgage Financing	4	18.2
Client Deposit	4	18.2
Loans by Directors	1	4.5
Credit from Suppliers	1	4.5

Note: Respective frequencies were drawn from a sample of 22 real estate developers in four regions of Ghana.

Source: Field survey, March 2007

This probably attests to falling levels of interest rates within the banking sector. According to the survey, majority of real estate developers pre-finance their housing projects from 'own-sources'. This represents about 72.7 per cent of the entire finance options. Bank loans (both domestic and foreign), government guarantee, client deposit and credit from suppliers were other options of finance.

Options for Developing the Housing Industry

Mortgage Markets

One major strategy often advocated for improving access to housing in an economy is to facilitate the development of a vibrant and efficient mortgage market. A fully developed mortgage market has two main segments - the Primary Mortgage Market (PMM) where transactions between companies that originate and service mortgage loans (banks, savings & loans, credit union, mortgage bankers, institutional lenders) are effected; and a Secondary Mortgage Market (SMM), where existing mortgages are bought and sold.

These markets are inter-twined and affected by both domestic and foreign monetary developments. A well functioning mortgage market has the primary task of increasing funding for housing at competitive cost and pricing to consumers of housing, hence enabling more people to afford decent housing.

The mortgage market in Ghana remains rudimentary. Currently, only a few banks, led by HFC and a non-bank financial institution (Ghana Home Loans) offer mortgages. Nevertheless, there is increasing demand for mortgage facilities. Outstanding mortgage loans to customers for the purchase of residential properties have increased tremendously over the past three years, currently standing at over \$50 million. The share of mortgage loans in the total loans granted by banks however remains marginal, and has been falling since the last quarter of 2006. (Chart 4)

The ratio of Mortgage Debt Outstanding (MDO) to Gross Domestic Product (GDP) for any economy is an important proxy for measuring mortgage market development. Ghana has achieved some moderate improvement in the mortgage market over the past three years. The ratio of mortgage debt outstanding to GDP grew from 2.5 percent in 2004 to 3.9 percent in 2006. Even though this improvement is remarkable, it falls short by a

significant margin in comparison with most middle-income countries.

Prospects for developing a mortgage market depends on a stable macroeconomic environment and increased activities in the secondary market. The housing industry currently is at the threshold of developing an efficient and sustainable mortgage industry based on the macroeconomic stability of the economy.

Challenges of Mortgage Financing

The provision of housing in Ghana has largely been based on informal financing for many years. Several efforts in the past (establishment of the First Ghana Building Society (FGBS), the defunct Bank for Housing and Construction (BHC) and the former Social Security Bank) to institutionalize a mortgage industry were hampered by macroeconomic instability and the absence of long-term financing opportunities. However, the current improved macroeconomic environment has limited the major risk factors such as high inflation rates, high interest rates and volatile exchange rates in mortgage financing.

Presently, the main underlying factor affecting the development of a mortgage industry in Ghana is lack of secure and transparent titled lands, with the consequential reduction in the granting of mortgage loans. The backlog of land title applications perpetuates multiple sale of land thus; the land market cannot operate effectively to either enable the development of a formal market for mortgage or to act as security for mortgage finance.

Mortgage patronage is also affected by a weak regulatory housing framework. Studies have shown that most housing and landed properties in Ghana are not properly registered. In fact, the condition of properties owned fit the description by De Soto (2000) that many possessions are poorly documented and cannot be readily turned into capital, used as collateral nor traded outside the domestic market thereby disqualifying many potential mortgagors from the market.

On the demand side, high mortgage payment-to-income ratio and quotation of mortgages in foreign currency has often discouraged potential mortgagors. Especially since mortgagors are required to repay debts (borrowed in foreign currency) in local currencies. In many instances therefore, high inflation and volatile exchange rate movements have tended to price out borrowers.

In general, Ghanaians have not been active participants in the mortgage financing market due to high commission fees, issues of risk, affordability and lastly high prices of houses offered by real estate developers.

The challenge therefore is to develop a mortgage market that addresses some of these issues and the remove the perception that the average Ghanaian is apprehensive about the use of loans to construct properties.

Policy Issues

Shelter is a basic human need and policy programs that promote a housing sector capable of supplying adequate shelter to the population are fundamental goals of government's social development strategy.

Well-designed policies supporting the production and consumption of housing services have significant impact on development. Not only do they promote the expansion of the construction industry and hence a push to growth in GDP, they also help stabilize an economy that is responsive to price bubbles. Above all, they increase the welfare of the population, particularly the poor, by improving living conditions and expanding their physical assets. In view of these, a number of policy considerations become imperative.

- There is the need to establish a well-defined system of housing finance to fund the construction of new structures and trading of existing properties. This can be achieved with the creation of a secondary mortgage market. This is based on the notion that an efficient mortgage industry thrives on the increased secondary housing market activities.
- Establishment of a strong legal and regulatory framework which comprises consistent and holistic set of laws in areas such as property rights, collateral, foreclosures etc. for the housing sector is required. This calls for amendment of the mortgages decree (1972) and also the HFC law.
- Alternative strategies to enhance mortgage financing that will benefit low to middle income earners and increase their access to affordable housing units could also be pursued in conjunction with the private sector as part of a broader strategy to narrow the country's housing deficit.
- Finally, creation of land banks with major infrastructure facilities like roads, electricity and water, as well as the establishment of land courts and decentralized land administration systems may be considered as part of efforts toward the downscaling of housing prices in the country.